SECTOR PROGRAM TO BUILD HUMAN CAPITAL

(BR-0360)

EXECUTIVE SUMMARY

Borrower and guarantor:	Federative Republic of Brazil	
Executing agencies:	Ministry of Planning and Budget and Ministry of Finance	
Amount and source:	IDB (OC): Total:	US$500 million US$500 million
Financial terms and conditions:	Amortization period: Grace period: Disbursement period: Interest rate: Inspection and supervision: Credit fee: Currency:	20 years 5 years 2 years variable 1.0% 0.75% U.S. dollars, under the Single Currency Facility

Objectives: This sector program will support the implementation of federal income-based transfer programs for poor families with an eye to building Brazil's human capital and thus breaking the vicious circle of poverty.

Description: The program is structured as a sector loan that will be executed over a period of up to 24 months and disbursed in two tranches of US$250 million each. Disbursements will be subject to specific actions being completed to enhance four income-based transfer programs: the food-support subsidy program (*Bolsa Alimentação)*, the education-support subsidy program (*Bolsa Escola)*, the program to eradicate child labor (PETI), and the youth-support subsidy program (*Agente Jovem)*.

These programs transfer cash directly to poor families having monthly per capita incomes equivalent to or less than one half the monthly minimum wage (US$36) in exchange for compliance with an agenda of commitments. The agenda of commitments for each program consists of specific actions for health care, nutrition, education, or training that can be performed by the family and that complement government efforts to pursue human development objectives. For instance, the family's commitment in the education sphere can be to ensure that children did not miss school, with the objective of lowering drop-out rates and improving school performance.

The sector program's action focuses on a set of measures that will trigger the disbursements and are geared to meeting challenges faced by the programs in four areas:

(i) **Targeting.** Targeting instruments will be developed, fine-tuned, systematized, and implemented for purposes of expanding the transfer programs' coverage. The goal is to improve program targeting by having municipal governments adopt appropriate targeting instruments and thereby increase the poverty alleviation impact. Better targeting will also bring greater equity to program actions by ensuring equitable participation of the country's poorest municipios, defined as those with the lowest Human Development Index (HDI). The expected impact of this component is to enhance targeting instruments and their use, thus helping to eliminate arbitrary biases in resource allocation and make social spending more efficient and effective.

(ii) **Evaluation.** Process and impact evaluation methodologies will be developed and applied for each of the programs, with an eye to providing input on each program's targeting, efficiency, and effectiveness and make the necessary adjustments. The impact of these actions will be to make technical criteria available for redirecting the programs in the future and, in the medium term, evaluating their impact on beneficiary families.

(iii) **Institutional framework.** Planned actions in this area will seek to consolidate the programs' institutional framework, including the establishment of legal and administrative instruments to provide the necessary legal, organizational, financial, and operative backing. These actions are expected to consolidate the financial and institutional framework and thus make the programs more sustainable.

(iv) **Management.** Strategic plans and policies will be formulated and implanted to enhance the programs' management, including: (i) policies and strategies for coordination with subnational governments and with similar programs so as to avoid overlapping and ensure greater complementarity; (ii) the establishment of permanent information systems for monitoring, providing oversight, and measuring performance with an eye to identifying and taking timely remedial action; and (iii) the development of technical instruments to increase the programs' operational efficiency and equal access by eligible beneficiaries and make program actions more relevant. The expected impact of these actions will be to ensure timely generation of the necessary inputs on the programs' performance so as to facilitate proper monitoring and oversight.

The Bank's country and sector strategy: The Bank's strategy, as set forth in the July 2000 country paper, is to support the government in its efforts to grow within a framework of stability and to reduce inequalities and poverty. The main areas of action are: (i) promote and deepen reform and modernization of the State; (ii) support efforts to enhance the competitiveness and market access of Brazilian products; (iii) reduce social inequalities and poverty; (iv) address environmental and natural-resource issues; and (v) support regional integration efforts.

The proposed program falls mainly within the area of reducing social inequalities and poverty, inasmuch as its actions support: (i) the implementation and enhancement of income-based transfer programs aimed at alleviating poverty; and (ii) the development and fine-tuning of targeting systems to better channel public resources to the most vulnerable groups, with consideration being given to gender issues and priority attention to children and young people. It is also related to the deepening of reform and modernization of the State, to the extent that these programs entail significant advances in the way social support for the country's poorest families is managed.

Environmental and social review: Inasmuch as this is a sector program, no provision is made for financing works or the related management actions. Accordingly, it will not have any impact on the environment nor will it be necessary to take environmental-protection action during implementation (see paragraph 3.16).

Benefits: Strengthening these programs will also bolster a core aspect of the fight against poverty in Brazil by ensuring the relevance of instruments to prioritize, coordinate, rationalize, and target the main social-protection interventions for the poorest of the poor.

The scheduled actions will make an important contribution to ensuring effective implementation and improvement of the programs, while helping them to achieve the desired impact on reducing poverty in the country. This fine-tuning of instruments to protect the most vulnerable population will help to enhance the well-being of the poorest population and to break the vicious circle of poverty by building human capital on a sustainable basis and encouraging families to assume an attitude of shared responsibility. In the medium term, the goal is to reduce the national infant mortality rate from 34 per 1,000 live births to 30 in 2003, reduce the school dropout rate from its current level of 12%, and reduce significantly the number of children and young people engaged in dangerous, unhealthy, or degrading work, such as prostitution, drug-trafficking, trash-picking, etc.

Risks: Delays in approval of the loan by the national legislature. Approval of the previous sector operation (Reform and Social Protection Program, loan 1174/OC-BR, which has been fully disbursed) was delayed seven months because of the debate it sparked during legislative processing by the Congress. Although the present operation will be submitted to the Congress in a pre-election year (presidential elections are slated for October 2002), this risk is expected to be less, since the government—based on the lessons learned from the previous experience—will take the necessary steps to secure timely support from legislators. Even if delays do occur, the government is expected to continue to comply with the agreements contained in the program even if the commitment has not yet been formalized.

Continuity of the process. Another risk is the position that the new country authorities could take vis-à-vis the priority and improvements to the programs once the operation has ended. This risk will be mitigated by high participation levels and efforts to build consensus among stakeholders and the Bank's regular monitoring of the country's loan portfolio, especially social-sector operations. Evidence of Brazilian society's priority and support for this type of targeted transfer program was observed in the local print and broadcast media when legislation was passed creating the *Bolsa Escola* program. The legislation was considered and approved unanimously and in record time (two weeks). The same was observed in the Congress's approval of the Fund to Combat and Eradicate Poverty, which will fund these programs.

Special contractual conditions: Disbursement of each tranche will be subject to the borrower performing the following, to the Bank's satisfaction: (i) maintain consistency in the macroeconomic setting agreed with the International Monetary Fund; and (ii) comply with the policy actions agreed for the respective tranche and specified in chapter II and Annex II-1 (see paragraph 3.4).

A specific condition precedent for the first disbursement will be the presentation of evidence that: (i) the line ministries have the necessary resources to carry out, to the Bank's satisfaction, the policy actions agreed for the second tranche; and (ii) specific, separate bank accounts have been opened to manage the loan proceeds (see paragraph 3.5).

Poverty-targeting and social sector classification: This operation qualifies as a project that promotes social equity, as described in the key objectives for the Bank's activity set forth in the report on the Eighth General Increase in Resources (document AB-1704). In accordance with that report's guidelines and inasmuch as this is a fast-disbursing sector loan, the program cannot be considered a poverty-targeted investment (see paragraph 3.15).

Exceptions to Bank policy: None.

Procurement: Proceeds of the Bank loan will be used to finance execution of a project to support the national public sector of the borrower. The Bank's applicable sector-lending procedures will be applied, which do not require international competitive bidding.